



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0216	Title:	Increase residential energy alternative energy tax credit
Primary Sponsor:	Wilmer, Franke	Status:	As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$39,062	\$33,610	\$33,610	\$33,610
Revenue:				
General Fund	(\$372,734)	(\$1,209,432)	(\$2,346,130)	(\$2,346,130)
Net Impact-General Fund Balance	<u>(\$411,796)</u>	<u>(\$1,243,042)</u>	<u>(\$2,379,740)</u>	<u>(\$2,379,740)</u>

Description of fiscal Impact

Current law provides income tax credits for installing an alternative energy system (15-32-201, MCA) and for energy efficiency investments (15-32-109, MCA). Both credits are limited to \$500, and the energy efficiency investment credit is limited to the taxpayer's current tax liability. This bill would increase the limit on both credits to \$1,000 and would allow taxpayers to carry the unused energy efficiency investment credits forward for three years.

FISCAL ANALYSIS

Assumptions:

Alternative Energy Systems Credit

- Under current law (15-32-201, MCA), a Montana resident may take an income tax credit for the cost of installing an alternative energy system in their primary residence. The credit is limited to \$500. Married couples are considered two taxpayers, and may each claim \$500. If a taxpayer's credit is more than their tax liability, the excess credit may be carried forward for up to three years.
- This bill would increase the maximum credit to \$1,000, beginning in tax year 2007.

3. This fiscal note assumes that increasing the maximum credit will not increase the use of the credit beyond the growth assumed in the HJR2 income tax estimate, but will increase the amount claimed by taxpayers who would take the maximum credit.
4. In 2005, 1,544 taxpayers claimed a total of \$640,431 in credits. Of these, 312 claimed the maximum credit.
5. Alternative energy systems eligible for the credit generally cost more than \$1,000. Taxpayers who would claim \$500 credits under current law would claim \$1,000 credits under the proposed law. The increase in credits would be \$156,000 (312 x \$500) per year.
6. Of the 312 taxpayers who claimed the maximum credit in 2005, 131 had tax liability that was less than the proposed maximum credit. Under this bill, they would have \$107,934 in credits to carry forward to the next year.
7. The increase in credits from this bill will first appear on tax returns for tax year 2007, filed in the spring of FY 2008. General fund revenue for FY 2008 would be reduced by \$48,066 (\$156,000 - \$107,934).
8. In FY 2009, taxpayers will claim \$156,000 in additional credits, carry forward \$107,934 to the next year, and use half of the credits carried forward from the previous year, \$53,967. The total decrease in revenue will be \$102,033 (\$156,000 - \$107,934 + \$53,967).
9. In FY 2010 and following years, credits carried forward from previous years will equal credits carried forward to the future, and the reduction in revenue will be \$156,000.

Energy Conservation Credit

10. Under current law (15-32-109, MCA), a Montana resident may take an income tax credit for 25% of the cost of energy conservation investments in a building. The credit is limited to \$500, or \$1,000 for a married couple. The credit must be taken against taxes for the year when the investment is made.
11. This bill will increase the maximum credit to \$1,000, or \$2,000 for a married couple, and allow taxpayers to carry unused credits forward for up to three years. The changes will be in effect beginning with tax year 2007.
12. Use of this credit has expanded significantly since it was amended in 2001. At that time, limits were increased to \$500 from \$150 for a residence and \$300 for a non-residential building, and the credit was increased from 5% of cost to 25% of cost. The 2001 amendments increased the credit that could be claimed for any investment but reduced the size of investment that received the maximum credit. It was \$3,000 for a residence and \$6,000 for a non-residential building before the 2001 amendments. The 2001 amendments made it \$2,000.
13. This bill would increase the limit on the credit, but not the amount of credit from any investment below the limit. Taxpayers who would take credits below the limit under current law would not be affected by this bill. Some taxpayers who would claim credits equal to the limit under current law would claim larger credits under the proposed law. Some taxpayers who would not have taken the credit under current law because they considered available conservation investments too expensive would claim credits with the higher limit in this bill.
14. Conservation investments that are eligible for this credit, such as adding insulation or replacing windows, have varying costs and many can be done incrementally over several years. Thus, not all taxpayers who would claim credits at the \$500 limit under current law would claim \$1,000 credits with this bill. However, the combined impact from taxpayers limited by current law and additional taxpayers making fairly large expenditures and claiming corresponding credits will be estimated as the additional amount of credits if taxpayers claiming \$500 credits under current law claimed \$1,000 credits with this bill.
15. In 2005, 17,960 taxpayers claimed a total of \$5,623,446 in credits. Of these, 3,036 claimed the maximum credit. Additional credits will be \$1,518,000 (3,036 x \$500) per year. At the maximum credit, 1,219 of the 3,036 would have credits greater than their tax liability and would carry them forward to future years. The total amount carried forward would be \$1,183,332.

16. In 2005, 3,429 taxpayers with credits below the limit were unable to use \$672,130 of credits because their tax liability was less than their credit. This bill would allow taxpayers in this position to carry these credits forward and use them in later years.
17. Under this bill, in FY 2008, taxpayers will claim additional credits of \$1,518,000 for expenditures during tax year 2007. Of this, \$1,193,332 would be carried forward to the next year. General fund revenue in FY 2008 will be reduced by \$324,668 ($\$1,518,000 - \$1,193,332$).
18. In addition, \$672,130 of credits that would be claimed under either current law or this bill would be carried forward to FY 2009.
19. In FY 2009, taxpayers would claim additional credits of \$1,518,000 and carry \$1,193,332 of that forward to the next year. Taxpayers would use half of the credits carried forward from the previous year, or \$782,731 ($1/2 \times (\$1,193,332 + \$672,130)$). General fund revenue will be reduced by \$1,107,399 ($\$324,668 + \$782,731$).
20. In FY 2010 and later years, additional credits being claimed and carried forward to future years will equal additional credits carried forward from previous years. General fund revenue will be reduced by the sum of new credits and existing credits that this bill will allow to be carried forward, or \$2,190,130 ($\$1,518,000 + \$672,130$).
21. The reduction in general fund revenue from the changes to both credits will be \$372,734 in FY 2008 ($\$48,066 + \$324,668$), \$1,209,432 in FY 2009 ($\$102,033 + \$1,107,399$), and \$2,346,130 in each following year ($\$156,000 + \$2,190,130$).

Costs

22. Department of Revenue auditors adjust approximately 25% of the claims for these credits that they examine. With the growth in use of these credits since they were last amended and the growth expected because of this bill, the department is not able to audit enough of the returns claiming this credit to ensure high taxpayer compliance with the law. To ensure adequate auditing with the increased credits, the department will need an additional 0.5 FTE tax examiner with annual salary of \$18,086 and annual benefits of \$9,578. Equipment costs will be \$5,900 in FY 2008. Operating costs will be \$5,498 in FY 2008 and \$5,946 in FY 2009 and following years. Total additional costs will be \$39,062 in FY 2008 and \$33,610 in FY 2009 and the following years.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.50	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$27,664	\$27,664	\$27,664	\$27,664
Operating Expenses	\$5,498	\$5,946	\$5,946	\$5,946
Equipment	\$5,900	\$0	\$0	\$0
TOTAL Expenditures	<u>\$39,062</u>	<u>\$33,610</u>	<u>\$33,610</u>	<u>\$33,610</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$39,062	\$33,610	\$33,610	\$33,610
TOTAL Funding of Exp.	<u>\$39,062</u>	<u>\$33,610</u>	<u>\$33,610</u>	<u>\$33,610</u>
<u>Revenues:</u>				
General Fund (01)	(\$372,734)	(\$1,209,432)	(\$2,346,130)	(\$2,346,130)
TOTAL Revenues	<u>(\$372,734)</u>	<u>(\$1,209,432)</u>	<u>(\$2,346,130)</u>	<u>(\$2,346,130)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$411,796)	(\$1,243,042)	(\$2,379,740)	(\$2,379,740)

Long-Range Impacts:

1. This bill would reduce general fund revenue by about \$2.3 million per year after FY 2011.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date